

Message Text

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TAGS: EFIN, EGEN, ECON, SZ
SUBJ: SWISS REACTION TO PROPOSALS FOR EUROPEAN MONETARY SYSTEM

SUMMARY: SWISS HAVE REACTED WITH SKEPTICISM TO BREMEN COMMUNIQUE
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AND FRENCH-GERMAN PLAN FOR EUROPEAN MONETARY SSYTEM. BANKERS
REPORTED BY PRESS AS UNABLE SEE HOW
SYSTEM COULD BE MADE TO WORK OR HOW IT WOULD HELP
DOLLAR. PRIVATE REACTIONS OF OUR SWISS SOURCES ALSO
SKEPTICAL, BUT WITH AN EDGE OF CONCERN. HOWEVER, ILL-ADVISED
THEY BELIEVE PROPOSED PLAN TO BE, THEY ARE NOT SO SANGUINE IT,
OR SOME VERSION OF IT, MAY NOT BE PUSHED THROUGH. IF SO, SWISS

BANKERS WANT SWITZERLAND TO PARTICIPATE IN DISCUSSIONS AS EARLY AS POSSIBLE. THEY FEAR THAT OTHERWISE SWISS WILL HAVE NO OPTION BUT TO JOIN AND NO INFLUENCE ON THE CONTENT. END SUMMARY.

1. SWISS NATIONAL BANK HAS NOT COMMENTED ON FRENCH-GERMAN PROPOSAL IN DETAIL. DISCUSSION WITH SNB SOURCE, HOWEVER, CONFIRMED THAT SNB SHARES SKEPTICISM EXPRESSED ELSEWHERE ABOUT WHETHER SO DRAMATIC A STEP IS POSSIBLE IN THE NEAR FUTURE. DISCUSSION CONFIRMED THAT REPORT APPEARING IN AFEFI ON BIS MEETING ACCURATELY REFLECTS SNB VIEWS. THAT REPORT STATED THAT THE CENTRAL BANK GOVERNORS PRESENT AT BASEL AGREED THAT THE PROSPECTS FOR ANY CONCRETE RESULTS FROM THE BREMEN SUMMIT ARE SLIM; THAT THE PROPOSAL IS STILL COUCHED IN VERY GENERAL TERM, AND THAT IT WILL BE A LONG TIME BEFORE THE DETAILS WOULD BE AGREED UPON. THEREFORE, IT IS UNLIKELY SWITZERLAND OR OTHER NON-EC MEMBER STATES WILL HAVE TO TAKE A POSITION ANYTIME SOON ON WHETHER THEY WOULD WISH TO PARTICIPATE IN SUCH A SYSTEM.

2. IN A NEUE ZUECHER ZEITUNG LEAD ARTICLE BY CHRISTIAN LUTZ, DIRECTOR ECONOMIC RESEARCH DIVISION, SWISS BANK CORP., LUTZ SAYS PRE-CONDITIONS FOR SUCCESSFUL OPERATION OF BREMEN PLAN DO NOT EXIST. NOT ONLY WOULD RATES OF INFLATION HAVE TO BE HARMONIZED, BUT DAILY MONETARY POLICY OF CENTRAL BANKS WOULD HAVE TO BE COORDINATED; EVEN WITH COORDINATION, PERIODIC CRISES DUE TO SPECULATION COULD NOT BE AVOIDED. TO BE SUCCESSFUL, LIMITED OFFICIAL USE

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PLAN WOULD REQUIRE DEGREE OF ECONOMIC AND POLITICAL COOPERATION ALMOST UNTHINKABLE OUTSIDE SUPRANATIONAL COMMUNITY. STABILIZATION OF RATES

INFLUENCED MOST BY DEGREE OF HARMONIZATION OF POLICIES, NOT BY POOLING RESERVES OR EXPANDING CREDIT FACILITIES. HARMONIZATION OF MONETARY POLICY HAS FISCAL IMPLICATIONS WHICH HAVE TO BE DEALT WITH; OBLIGATIONS OF SURPLUS AND DEFICIT COUNTRIES WOULD HAVE TO BE SPELLED OUT. GIST OF LUTZ ARTICLE IS THAT AS IT STANDS, FRENCH-GERMAN PLAN IS AN OUTLINE OF AN OUTLINE. TRYING TO FLESH IT OUT WILL REVEAL INSUPERABLE DIFFICULTIES. FURTHERMORE, THE THEORETICAL BASIS FOR THE PROPOSALS HAS NOT BEEN LAID.

3. LUTZ' VIEW COINCIDES WITH THAT OF HANS MAST, DIRECTOR AND HEAD, ECONOMIC DEPARTMENT, SWISS CREDIT BANK. MAST TOLD US THAT THE PROPOSED PLAN ATTACKS PROBLEM FROM THE WRONG END. IT ASSUMES THAT ONE COULD DECREE AN EXCHANGE RATE, PROVIDE LARGE AMOUNTS OF CURRENCIES TO DEFEND IT, AND SUCCEED IN DOING SO REGARDLESS OF UNDERLYING FACTORS AND TRENDS. POLICY COORDINATION, ACCORDING TO MAST, HAS TO COME FIRST AND CAN ONLY BE ACCOMPLISHED IN SMALL STEPS. HOWEVER, MAST AS WELL AS OTHER BANKERS ARE NOT CONVINCED THAT THE FRENCH-GERMAN PROPOSAL, OR SOME VARIATION OF IT, WILL

NOT BE IMPLEMENTED. THEY ARE CONCERNED THAT SWISS OFFICIALS MAY MISREAD THE SITUATION AND MOVE TOO SLOWLY. SWITZERLAND COULD THEN BE FACED WITH THE NECESSITY OF JOINING A EUROPEAN CURRENCY AREA WITHOUT HAVING PARTICIPATED IN OR INFLUENCED THE DECISIONS THAT LED TO IT.

4. "DER BUND" ALSO REPORTED THAT ITS SOURCES IN THE FINANCIAL COMMUNITY ARE SKEPTICAL ABOUT PROPOSED NEW SYSTEM. GNEERAL SKEPTICISM CAUSE OF FALL DOLLAR MONDAY TO SF 1.786 BEFORE SNB INTERVENTION. CURRENCY SPECIALISTS FROM LARGE ZURICH BANK SAY SWISS BANKDRS DO NOT BELIEVE SYSTEM CAN WORK. SPECIFICALLY, IT COULD NOT CONTRIBUTE TO DOLLAR STABILIZATION. WITH DOLLAR REMOVED FROM LIMITED OFFICIAL USE

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RESERVE CURRENCY FUNCTION, THERE WOULD BE A MASSIVE DUMPINT OF DOLLARS ON THE EXCHANGE MARKETS. FUNDAMENTAL SOURCES OF DOLLAR WEAKNESS SUCH AS ENERGY CONSUMPTION, INFLATION, BUDGET DEFICITS ARE NOT HELPED THROUGH BETTER EUROPEAN COOPERATION. DER BUND'S SOURCES SEE NO CHANCE THAT BONN MEETING WILL RESULT IN ANY BASIC CHANGES IN SITUATION AFFECTING DOLLAR. CENTRAL BANKS ARE NOT INTERVENING POWERFULLY ENOUGH TO PREVENT DOLLAR GLUT WHICH IS FACTOR CREATING ADDITIONAL UNCERTAINTY. "DER BUND" THINKS CREATION OF A NEW CURRENCY COMMUNITY WITH SWITZERLAND OUTSIDE WOULD LEAD TO FURTHER SF APPRECIATION AS RESULT INFLATIONALRY IMPACT OF PROPOSE SYSTEM ON GERMAN ECONOMY.

5. IN AN EDITORIAL COMMENT, AGEFI SAID BREMEN PLAN IS VICTORY FOR FRANCE OVER GERMANY. WITH 36.2 PCT OF EEC RESERVES, GERMANY WILL BE REQUIRED TO MAKE THE MOST SACRIFICES. EVENTUALLY EVERYONE WILL JOIN THE FRENCH-GERMAN PILLAR, WHICH WILL BE THE NEW BRETTON WOODS OF EUROPE. THE IDEA OF A EUROPEAN CURRENCY SHOULD BE WELCOMED. CROWLEY

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